

WEDNESDAY 11 JANUARY 2006

Present

Armstrong of Ilminster, L
Bonham-Carter of Yarnbury, B
Fowler, L (Chairman)
Gibson of Market Rasen, B
Howe of Idlicote, B
Kalms, L
Manchester, Bp of
Maxton, L
O'Neill of Bengarve, B
Peston, L

Witnesses: **Professor Martin Cave**, University of Warwick, and **Dr David Cleevely**,
Chairman, Analysys, examined.

Q1719 Chairman: Professor Cave and Dr Cleevely, welcome. You will know that we have already produced one report and we are now producing another. One thing we are interested in is very much this issue of spectrum. We have known for some time that you, Professor Martin Cave, were coming. Dr Cleevely, I think you are a fairly recent addition to the cast list.

Dr Cleevely: I think you can put that down to me not responding to emails.

Q1720 Chairman: I have great sympathy. We have your biography, so we will not ask you to repeat that. Professor Cave, obviously we have your report. Could you explain why you were asked to make this report in the first place?

Professor Cave: Certainly. I have in fact done two reports: one in 2002 was a general review of spectrum strategy for the UK, which covered the whole range of spectrum use, both public sector and private sector; the second report, which the Treasury commissioned at the end of 2004, was specifically to address the question of what could be done to improve the efficiency

of spectrum employed for public purposes. It was characterised as an audit of major spectrum holdings, up to 15 GHz, which includes the most valuable spectrum. In fact, a large part of that is used by organisations such as the Ministry of Defence and the Civil Aviation Authority for public purposes. There was a focus upon that. As you may know, it specifically excluded broadcasting, which had been dealt with by other means. I think the concern behind it was that whereas, as far as private spectrum users are concerned – mobile phone operators and people of that kind – they have a strong incentive to use their spectrum efficiently because they have had to pay for it in many cases, and ordinary commercial pressures impose a kind of operational discipline on the way in which it is used, on the other hand, with the public sector, a lot of the spectrum is just allocated free of charge for them to use; therefore, they have an incentive to ask for a lot of it and they have a further incentive not to give any up if they do not necessarily need it to use it very intensively in the future. So the question then becomes: how do you try to challenge their holdings of spectrum and how can you introduce a regime which imposes some kind of financial discipline upon them which actually gives them a continuing incentive to cut back on their spectrum use and return unwanted spectrum.

Q1721 Chairman: That is very clear. I am always very suspicious when I hear that the Treasury want to set up a review to improve efficiency. It always seems to me that that might be another way of saying raising money.

Professor Cave: I am not really in a position to do anything except take their motives and their remit at face value. I must say that personally I have always regarded it as a huge mistake to use spectrum as a way of raising money, just simply because in order to raise the money you have to restrict its use, and by restricting its use, you are depriving consumers of lots of benefits. I have always been very strongly opposed to that particular approach. Indeed, I believe it is contrary to European legislation to do that, although identifying what is happening is of course rather difficult.

Q1722 Chairman: You say, as of course we knew, that broadcasting was excluded from your review. Why was that?

Professor Cave: Most of the focus of the work was on public sector, unexplored aspects of spectrum use, particularly involving the Ministry of Defence. It was, to a considerable extent, pretty virgin territory as far as investigations of this kind are concerned. There may have been a feeling that it was quite a big pay-off to making a start with drilling down into those areas. On the other hand, the broadcasting issues have been subject to very considerable debate following my earlier report and the Government's response to it, which allowed it to introduce spectrum charging for broadcasting under certain conditions. No doubt, there was a feeling that quite a lot of work had been done on that and, moreover, we had now got to the stage where analogue switch-off was being imminently decided. Presumably any advice that I could give them on this rather difficult issue was superfluous. I think that is why it as not included.

Q1723 Chairman: Explain to us for the purposes of the minutes of our report the importance of radio frequency spectrum for broadcasting.

Professor Cave: It used to be of absolutely fundamental importance because in the world before 1980 all telephone calls went on wires and all broadcasting went over the airways. What we have seen since then is the development of a range of multi-purpose platforms, which are capable of providing services, such as telecommunications services and broadcast services, some of them wireless and some of them using wired methods. As a consequence, we now have a much greater degree of choice over how broadcasting services should be delivered to households. You can obviously rely upon analogue terrestrial transmission or digital terrestrial transmission or satellite, which uses much higher frequencies. Obviously all of these are spectrum using technologies. Then, in addition, there are cable TV networks, and also increasingly the use of a telecommunications network upgraded to provide broadband

services, which is capable of providing video on demand. In a sense, the importance of spectrum for broadcasting has diminished to some degree by the introduction of these other alternatives but that, of course, makes it particularly important that we devise ways in which pressure can be put upon people providing communication services to provide those in the right way. There are some services which have to be provided using spectrum, like mobile communications. There are many services like broadcasting where you actually have a choice. In a sense, the introduction of these degrees of freedom and the existence of these multiple platforms makes the issue of spectrum management much more difficult and it is much more important to get it right, just simply because the demand for spectrum has increased in so many different ways.

Q1724 Chairman: Dr Cleevely, have you anything to add to that?

Dr Cleevely: No, not really; I think I would agree with Martin on this but say in particular that there is enormous economic potential value, not in the sense that you were talking about with the Treasury, in spectrum. It is a significantly under-exploited resource, both for broadcasters and for other potential users of spectrum. It is very important that over the next 10 or 20 years, in a world where we are talking about broadcasting that is going to move to multiple platforms, we get the economic incentives correct so that then people can take the right kinds of decisions and innovation can take place. That is where we are going to create the greatest amount of economic growth and the greatest benefit for the people of the United Kingdom.

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Q1725 Lord Armstrong of Ilminster: As I understand it, the spectrum is the property of the Government. I believe our access to it is controlled by international agreement. I would be grateful if you could confirm that. The other question is: to whom is the BBC now accountable for its use of spectrum? Is there any process by which their use of it is reviewed and justified?

Professor Cave: I will try to deal with those points in order. I think there still may be some residual uncertainty about precisely to whom the spectrum belongs. Clearly it belongs in the Government camp, or it is to be disposed of by government. The Government has committed itself through a United Nations treaty-based organisation, the International Telecommunication Union, to respect certain rules concerning the use of spectrum. Broadly speaking, these rules say that particular tranches of spectrum under this international treaty should be used for particular very broadly defined purposes, such as broadcasting or telecommunications or things of that kind. That does not, however, necessarily impose very strong restrictions on what happens within the United Kingdom. It obviously leaves it open within the United Kingdom for the Government to assign spectrum to particular firms and organisation in order to fulfil the very general functions which are set out in the international treaty. As far as the BBC is concerned, I think I am right in saying that the BBC holds a wireless telegraphy licence, which permits it to have access to spectrum. That spectrum is, to a large extent, planned by the BBC in conjunction with the Radiocommunications Agency previously and subsequently Ofcom, and decisions are made in conjunction with other broadcasters about how precisely spectrum should be used in order to maximise broadcasting efficiency.

Q1726 Baroness Bonham-Carter of Yarnbury: Pursuing the questions from a point of real ignorance, you mention the fact that cable does not use spectrum. Is that correct?

Professor Cave: That is broadly correct. It is a wire-based technology

Q1727 Baroness Bonham-Carter of Yarnbury: Who owns/controls the cable access to channels?

Professor Cave: Companies like Telewest and NTL hold franchises to run cable networks and then they decide which channels they want to admit to those cable networks.

Q1728 Baroness Bonham-Carter of Yarnbury: Is there an infinite number of potential channels?

Professor Cave: No. They would have something of the order of 250 channels on an upgraded cable system, whereas of course the limitations for DTT are in a 50 to 60 level at the moment, depending upon technological developments, whereas satellite is 500 plus, very large numbers.

Q1729 Baroness Bonham-Carter of Yarnbury: Is the fact that spectrum is so important because the Government has decided to do analogue switch-off and the BBC and so on will be using spectrum?

Professor Cave: As I have said, spectrum has traditionally been the foundation of all broadcasting. Twenty years ago, just about every broadcast was delivered by spectrum. What has happened now is that people have moved, first of all, to other frequencies, which are satellite frequencies, so we have both terrestrial and satellite delivery using spectrum, and also both cable companies and telecommunications companies like BT are now capable of delivering broadcast services to homes using wire5 rather than using spectrum.

Q1730 Baroness Bonham-Carter of Yarnbury: The television channels could pursue an alternative way of getting channels, other than through spectrum?

Professor Cave: Yes, they certainly can but, of course, whereas satellite is available to just about everybody, even though only about 10 million households take it up, cable networks are only available to two-thirds of the population of the country and have a relatively low take-up level. Analogue terrestrial and in the future digital terrestrial will be available universally. If you want to get through to everybody, the simplest way of doing it is by getting on those platforms.

Q1731 Lord Maxton: I am not contradicting you because you are the expert and I am not, very far from it. ADSL and DSL technologies surely are potentially available to anybody who has a telephone line and that, in theory, particularly in terms of some experiments actually being done by some companies in London, is already being done and they are providing television services down the line. Does that not mean that basically potentially everybody can get broadcasting without using spectrum?

Professor Cave: Yes, that is certainly true but the number of subscribers to broadband in the UK at present is, say, 25 per cent of the population. If you actually have a channel and you wanted to make it available via ADSL only, then you would have a limited clientele. I believe there are also some doubts about the capacity of DSL to deliver broadcasts to those who are located some distance from the exchange.

Q1732 Lord Maxton: Is not that the mistake that we made in this country and in other countries they have not made in not ensuring that the country is properly cabled to take this sort of television?

Professor Cave: I think that is a very difficult question to answer because the costs of going snap on a particular technology at any particularly point in time and of laying down a permanent universal infrastructure are very considerable indeed. It is very nice once you have done it because you have it; on the other hand, it may turn out to be a bit of a white elephant.

Q1733 Lord Maxton: Countries like South Korea and Japan have done it and it has been very successful in terms of providing television by a different route. I see Dr Cleevely nodding.

Dr Cleevely: Steam will come out of my ears presently, if I am not careful!

Q1734 Chairman: You may come in at any stage. Do not wait to be asked.

Dr Cleevely: On the issue that was first raised, which was about whether you can use spectrum or whether you can use cable, Martin has been quite correct in talking about the “as is”. My view will differ from Martin’s because I will not talk about the “as is” but what might happen over the next 10 to 20 years. What you will see over the next 10 or 20 years is what is already happening ~~as you say~~ in Japan and South Korea. You can get far more capacity ~~hundreds and thousands, if not millions, of channels, if you wanted to, over wire~~ line or optical fibre systems. If you actually do the calculations over a greenfield site for the UK, economically that has now started to make a great deal of sense. You have to ask yourself: why are we still broadcasting? The answer is that we still have satellites flying around in the sky and we still have people with television transmitters. What we are actually looking at is the period of transition from a point where most of this stuff goes over the radio waves and is broadcast, to a position where the vast majority will be accessed by cable systems because ultimately they are economically a great deal more efficient. Indeed, you can change the way in which you access the broadcast channel. In fact, broadcasting over the next 10 to 20 years might start to look rather antique ~~to be honest, because if I want to~~ watch something, I want to watch it now. I can do that off a personal video recorder, if that is what I want to do, but it is a lot more convenient if the supplier, as in Japan for example, simply allows me to watch whichever programme I want to at whichever time. Broadcasting is an incredibly inefficient and wasteful way of doing that. It is much more cost-effective to do that using other wireless systems.

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Q1735 Chairman: Why is it inefficient and wasteful?

Dr Cleevely: That is because, as Martin has said, for example with satellite, you are broadcasting to the whole of the United Kingdom but only 10 million households take it up. In the meantime, satellites are using as much spectrum as the military do, below 15 GHz. There is a lot of fuss made about the military using a great deal of spectrum. I declare an

interest in that of course. You have to understand that you are now broadcasting huge amounts of data for large amounts of people, many of whom do not necessarily want it. Where you have such a huge amount of information being broadcast, it is probably better to start to build systems that are directed to the people who actually want that, as opposed to just about anybody who could receive it.

Q1736 Lord Armstrong of Iminster: The underling base of this is that the spectrum is a finite resource and the wire systems are infinite.

Dr Cleevly: Yes, almost, but spectrum is not a finite resource. Let me justify that very unexpected statement on the following grounds. If I have a transmitter that is covering 10 or 100 square kilometres of territory, then I need a certain amount of bandwidth to transmit a certain amount of information. But if I have a transmitter that is covering 100 square metres, I can use the same bandwidth to transfer the same information and a few hundred metres away I can re-use that spectrum. Just in the same way as mobile telephony chops up the territory into smaller and smaller pieces in order to be able to carry more and more traffic in the same amount of spectrum, we could continue to do that with broadcasting and any other use of the radio spectrum. It is a very simple piece of arithmetic to do a calculation to demonstrate that for 2 GHz, (and the audit that Martin did was for 15 GHz from 0 to 15 GHz, not quite 0 of course), you could give everybody in this country 100 megabits per second quite economically; 100 megabits per second translates into several simultaneous high definition TV channels, plus all the mobile telephony they want, plus all the internet access they want. Of course “infinite” is a word that is used with precision by mathematicians and very loosely in a context like this. There is no real shortage of spectrum. The pricing that Martin has been involved in, for example, is specifically directed at opening up this resource, so that we can actually use it more efficiently and more effectively and not be constrained in the thinking that we have had for the last 50 to 100 years.

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Q1737 Chairman: Professor Cave, do you want to respond to that? I read from your report here that spectrum is a finite resource. That seems just to have been slightly challenged.

Dr Cleevly: I was using the term loosely.

Professor Cave: I think David has used the term “infinite” rather loosely. At any point and with any given set of technologies, there is only a certain amount that you can do with it. Just jumping over that point, if I may, I have tried throughout to avoid taking a position about what is the most efficient or the most desirable way of delivering services to people. As far as I am concerned, I am somebody who advises governments and regulators, and I do not think they should take that kind of decision. I think that is a decision that ought to be taken by people who make the investments.

Q1738 Chairman: I do not know if you can, but if you were to take that hat off and express a personal view, would you have sympathy with the point that Dr Cleevly has put?

Professor Cave: No, because spectrum is available free; it is a non-depletable resource. It is going to be there for ever. We should use it as much as we possibly can because it is a very valuable input. Subsequently, we may have to resort to other technologies to achieve different things. Basically, I think we are going to end up with a quilt of different colours involving different technologies and providing different services and also, perhaps most fundamentally, constantly changing as new technologies come in. For anybody to try to control that process, except through very general regulatory parameters, I think is a huge mistake.

Q1739 Chairman: May I ask one very obvious question? What determines the range for a broadcast signal? You said that you could use the same bandwidth for 100 kilometres or for a much small range. What is the other variable, as it were, which determines whether it is going to be 100 or 10? Is it the strength of the signal?

Dr Cleavelly: It is the strength of the signal; it is the amount of power that somebody uses. Your mobile phone, for example, which transmits generally over relatively short distances and is very sensitive to how far it has to get to the transmitter, and actually transmits at extremely low power so as to conserve your battery, for example. The BBC transmitters for broadcasting can be transmitting in hundreds of watts; they are very powerful and go over a very long distance. May I also add that Martin and I may appear to be slightly at odds but we are coming at exactly the same point but just from slightly different directions? The real issue here is that in the directing of spectrum pricing, particularly as applies to broadcasting in this case, I share Martin's view that that will then generate this innovation, which will, in the end, determine, through people's preferences and the operation of the market, without any single regulator or any central body determining what technology is best, a whole series of things, many of which we have no idea about yet, apart from vague ideas that are sitting around in laboratories and in people's heads. I am absolutely at one with Martin on that.

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Chairman: I hear what you say. I would like to move on to the world as it is, which I think was the point that you were putting, Professor Cave, and the impact of spectrum pricing.

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Q1740 Lord Peston: I am bit lost by what both of you have said. I am used to economics and the concept of efficiency bears no relationship to economics or what one of our witnesses was talking about at all, as far as I know, but maybe the subject has changed. I am right that you said in reply to Lord Armstrong that the spectrum in some general sense is within the Government's domain. which might also then be interpreted as belonging to the citizens of this country. The Government then would use it for optimum public purposes. Would that be a fair way of putting it? That is what we mean by things being in the public domain.

Professor Cave: I hesitate to describe it legally in those terms. In effect, it is at the Government's disposal.

Q1741 Lord Peston: That is right. Normally, what is at the Government's disposal, subject to some distinction, is meant to be allocated for the benefit of the people of this country. That is normal. I used to teach the subject and it is certainly what I used to say.

Professor Cave: It would certainly be a very respectable objective.

Q1742 Lord Peston: Therefore, to take an obvious example, if one of the objectives of the general views of what the people of this country wanted would be virtually universal coverage of television, then that would be a perfectly acceptable thing that they would want and they may like spectrum to be allocated to achieve that. I would be right on that, would I not, if that is what they want and if that is what is regarded as in the public interest?

Professor Cave: The public interest would be in the capacity of the population to receive broadcast programmes, which may or may not be spectrum based.

Q1743 Lord Peston: But if it were to be spectrum based, that would be one way of doing it. The notion of universal coverage does not imply the notion of universal watching. In other words, if I look at my *Radio Times*, I want access to everything in the *Radio Times*, but that does not mean I am going to watch everything. I certainly do not regard the system where most of us do not watch as inefficient, and that is why I regard your use of the word efficient quite as quite erroneous. In other words, it is nothing to do with the idea that if only a few people listen to *Radio 3*, that is not allocating the resources properly. Surely that is a complete mistake as far as economics is concerned. I think I am right on that. Now, let us go on to the point, and I entirely accept the view that if we place a value on something, that requires people to use it economically. It will also cause them to innovate, we hope, to use it even more economically. That is commonplace. Is not that experience of pricing that it also has all sorts of other effects which may be adverse? Take your view, Martin, of the Ministry of Defence. Can you imagine if we were involved in some military conflict and the Minister

of Defence said, "I am sorry we lost that but of course we did an analysis of the cost of acquiring some extra spectrum and we decided not to buy it. It is too bad we lost 100,000 troops because we could not communicate". The notion that you would even introduce that idea into the analysis of defence would be regarded as ridiculous. It does not solve the problem of how you allocate spectrum to them. The answer that we did a cost-benefit calculation and that was our answer would never stand up at all. A government would fall within a minute.

Professor Cave: Could I interject here because it seems to me that when the Government determines what is the appropriate scale of the defence budget, it is making a balance between costs and risks. It is abridging the nation's capacity to respond because it costs money. It costs money to buy weaponry from the United States. It costs money to employ people to be members of the Armed Services and things of that kind. My view of spectrum pricing is that because it is a resource which has considerable alternative opportunities for use and there are therefore substantial opportunity costs in using spectrum for one purpose rather than another, it is important, if we are operating within a kind of market economy of the kind I have described where you buy defence equipment and you hire soldiers, sailors and people to fly airplanes, that that discipline should apply uniformly to all the inputs which are purchased. Only by that means are you going to get people making appropriate trade-offs between, for example, slightly more expensive American equipment, which uses much less spectrum, and much cheaper American equipment which uses a vast amount of spectrum and which therefore deprives, say, Vodafone or Sky of access to spectrum which it would use to provide a whole range of services to the British people whose interests the Government is quite rightly encouraging.

Lord Peston: That is not my question. Really what I am trying to get you to focus on, turning it the other way round, is this. Supposing the generals and all the others all say that

we need this spectrum. Would not the system work – and Lord Armstrong understands this much better than I do – if the generals were to say, “We have got to have this”. Spectrum is priced at such and such and their budget will then be adjusted so that they could buy the thing; in other words, it would not actually economise in the sense in which economist often talk. It is rather like the argument, looking at St Thomas’s over there, that if we attach pricing mechanisms to the NHS, which this Government is keen on, it raises the point that there is no point in keeping old people alive; the benefits compared with the costs are just massive. It applies to me as well. If the Government were to take note of pricing mechanisms seriously, it would lead to results that no-one would be willing to accept. Supposing it did lead in this case to the BBC not putting on the kinds of programmes it wanted, could you imagine the Secretary of State saying, “It is too bad. The spectrum has been priced. We need lots more mobile phones. We do not need public sector broadcasting”. Is there not a certain naivety amongst us economists when we put this sort of thing forward that we do not seem to understand the real world?

Q1744 Chairman: We have got back to the BBC now, which is good. How do you reply to that?

Dr Clevely: I reply on two counts. Firstly, I apologise for being slightly short in the way that I explained my argument about efficiency. It is simply that if you know there are alternative technical means for providing exactly the same level of service and you know that somebody is then using a resource which they are getting free, and if they did not get it free and it was traded in the market at a reasonable price they would use some alternative method, then that does count for economic efficiency. I hope we are back on sound economic grounds, even if the mathematics earlier was a little bit risky. I think I have to talk about the defence issue for a moment, if we may move away from broadcasting, since I am a non-executive director of the Defence Communications Services Agency, and some of this stuff impinges directly on

this. In fact, I was at a main board meeting yesterday. We sit there and we take decisions of exactly the kind that you are talking about. We have to allocate resources and we have to think about how you meet the Treasury guidelines and the Treasury imposes extremely strict views on exactly how much we spend on communications, for example.

Q1745 Lord Armstrong of Ilminster: Do you allocate frequencies?

Dr Cleavelly: No, some of that is done within other parts of the Ministry of Defence, although Martin recommended that there should be some changes within the Ministry of Defence as to exactly how some of that is done. That will undoubtedly play out before the big stick that I think you were mentioning comes along to beat up the Ministry of Defence at some time round about 2007, but let us not get too much into that. To go to your point, it is extremely important for defence, for example. I see my particular role as a non-executive director as being absolutely to make sure that defence is using resources effectively and, if I dare say so, efficiently. When it comes to things like spectrum, I see that as a major component of the way in which these things work. It is absolutely vital that we start to bring prices to bear on this stuff because otherwise you have no mechanism for working out, in Martin's word, whether you are using the right inputs to produce the desired outcome. That is precisely the problem that we struggle with. I can see your point about losing 100,000 troops. Nobody would ever want to do that if it could possibly be helped. I think we are moving to a situation where we are less likely to do that than more likely.

Q1746 Baroness Bonham-Carter of Yarnbury: Speaking as someone who has worked in broadcasting rather than as an economist, I am going to ask a straight question, which is: does the Government not need to allocate spectrum to ensure public service broadcasting? By taking money from the broadcasters, from the BBC and from Channel4 et cetera, to pay for spectrum, is that not taking money directly out of programme-making budgets?

Professor Cave: The overall view of spectrum management, which I have espoused, is that there should be two processes going on. One is a process which relates largely to commercial use of spectrum, and that is a market process. In essence, you create spectrum licences as tradable property and you allow various firms to buy and sell this property in order to achieve a market objective of providing services to homes and customers. That is the first world. There is also a second world in which the Government, quite rightly, allocates spectrum for specified public purposes, of which defence and public service broadcasting are obvious examples. The difficulty arises to some extent in the co-existence of these two worlds. Clearly, the commercial spectrum users will be under commercial pressures to economise on spectrum. There is, however, a concern in some sense that if the public sector spectrum users get it free, they will get too much and we will have an imbalance and consumers will be deprived of the benefits they would otherwise have derived. For that reason, I have proposed the extension of a system that was introduced in 1996 which means that public sector spectrum users actually make some kind of payment. A calculation is made of roughly what the spectrum could have done had it been used for other purposes, and they are charged that as an administrative incentive price as an input into their decisions. I think that has two consequences. Firstly, it makes transparent or more transparent how much public services are actually costing. If the Ministry of Defence, for example, is sitting on £5 billion worth of spectrum, and you would normally expect it to earn a return of 10 per cent on that, that is £0.5 billion pounds of expenditure, so that the defence budget in a sense is more than we first thought. The same of course would apply to the BBC and to Channel 4. It would not apply to ITV and to Channel 5 because they have in some sense been engaged in a competitive process to acquire their licences and that competitive process includes an implicit payment for access to spectrum which gives them the opportunity to broadcast to households. It is really only the BBC and Channel 4 which are involved in this particular discussion about the price of

spectrum. That is one reason – transparency. The second reason is that pricing provides signals for broadcasters to make sensible decisions about how to achieve their statutory or other objectives. For example, they may have an objective to ensure that their programmes are available as widely as possible and on as many platforms as possible. Then, having an arrangement by which the platforms are priced to reflect their actual economic cost, including the cost of spectrum, is going to help them make those decisions. Another issue is the question of analogue switch-off. Perhaps I could just say in general terms that this is a transition. It is a margin of discretion which is available to the broadcasting world, including of course its regulators and the Government, and prices of spectrum can play a role in generating sensible, rational and efficient decisions which ultimately benefit consumers.

Q1747 Baroness Bonham-Carter of Yarnbury: You do not think that that is money that should be being spent on programmes or content?

Professor Cave: The administrative pricing for spectrum is in respect of things which the Government declares ought to be done: such and such defence capability, such and such public service broadcasting. What I am suggesting is that the Government should allocate the appropriate amount of money to provide the level of defence services or public service broadcasting services to cover all the costs. At the moment, the Government allocates money through its licence to cover the BBC for the cost of hiring its staff, the cost of paying for its transmission, and the cost of buying its electricity, but it does not in fact allocate money for the cost of buying its access to spectrum. What I am suggesting as a general rule is that that should be included as a cost and that there should be an appropriate adjustment to the revenues which the BBC makes in order to cover that cost.

Q1748 Lord Armstrong of Ilminster: In the case of the BBC, if we were charging for spectrum, it would be up to the BBC to say whether they wish to recover this from an increase in the licence fee or by reducing expenditure on other things. That would be a BBC decision?

Professor Cave: Or possibly by reducing expenditure on spectrum by identifying more efficient ways in which it can use spectrum in order to achieve those objectives.

Q1749 Chairman: The difficulty, of course, that we have with the BBC is that if you were to do that, if for the sake of argument you were to have the impact Lady Bonham-Carter was talking about and you reduce the programmes, and I think the fear is that this might take place, the only way that money could realistically be raised in terms of the BBC is by increasing the licence fee, which is already a regressive tax?

Professor Cave: That is indeed a consequence but, broadly speaking, if the BBC is making a lot of decisions at the margin about the kind of activities which it would undertake based upon the licence fee and if those decisions include margins of spectrum use, then there is a considerable potential pay-back in terms of greater efficiency by focusing their attention on that amount. The second point to make is that we might not be talking about vast sums of money.

Dr Cleevely: I was going to make precisely that point. We are not talking about huge amounts of money.

Q1750 Chairman: What do you mean by that?

Dr Cleevely: If you moved to fully digital on broadcasting, you save something of the order of £225 million a year. I think that the BBC would cut its costs down, the BBC would be paying out something of the order of £20-£30 million a year for that. We are not talking about a huge chunk of their budget. Martin probably knows the figures better than I do.

I would not rely on my figures. By the same token, the BBC is taking decisions about how it

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distributes its content, so it is paying for IP streaming which costs roughly 20 to 30 times the cost per viewing hour of a broadcast transmission. I cannot see the argument, to be frank, for saying that they should stop doing that because they should put the money into programmes or that they should stop, as they are doing at the moment, distributing content over mobile phones because they are taking a decision about how they wish to reach their audience and fulfil their remit. What we are doing here is actually giving the BBC ~~considerably more~~ freedom to be able to do that kind of thing. In the long run, whilst it is nice to think that the Government can somehow decide how people should do things, frankly, it is better if the people decide how these things are done. Obviously you have to internalise some of the externalities of universal coverage and so on; there are roles for regulation there. But we are talking about giving all broadcasters a link to the market so that they can actually start to do things which people prefer. People may prefer in the long run to get what we now regard as broadcasting over completely a different medium.

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Q1751 Lord Maxton: In a sense, that is my point. I am quite ignorant about this. How much spectrum could a five-terrestrial channel use in comparison to, say, a giant satellite? Have you any idea what the figures are? Sky is providing up to 500 channels, you say. Is Sky using a lot more spectrum in the five channels or are the five channels using as much spectrum?

Professor Cave: Can I try to evade that question by saying that even though there is a physical unit of spectrum, the megahertz, across the whole range of very low frequencies to very high frequencies, the actual economic value of it varies so hugely that it is very difficult to compare quantities of terrestrial transmission which uses spectrum absolutely at the “sweet spot”, the most valuable spectrum that there is, with the spectrum that is used by satellite broadcasters, which is way up there and is competing with much less efficient uses. I think the broad answer to your question is that to provide a channel of national coverage by satellite

is, in spectrum terms, an awful lot cheaper than it is to provide a channel of coverage by terrestrial means.

Q1752 Lord Maxton: Perhaps I should not really ask this. Would not it be more efficient and cheaper in spectrum terms to give everybody a satellite dish or a telephone line, an ADSL, rather than going to terrestrial digital?

Dr Cleevley: You do not know because it is about people's preferences. If you go back to the point about where people live and how they wish to gain access to these kinds of things, you do not necessarily want to be forcing that decision. That decision will be taken by people taking their own individual decisions and the broadcasters using their inputs and producing the outputs accordingly.

Professor Cave: Statements of that kind have been made but the conclusion seems to be that the cheapest method is to use a combination of all the known technologies, subject to quantification.

Chairman: I want to move on to the value of spectrum.

Q1753 Baroness O'Neill of Bengarve: Professor Cave, we have found ourselves meeting a number of claims both about the value of the price of spectrum, and I do not want to get into the more metaphysical things because I can see that you are looking for an array of things, some of which you may say have no value whatsoever. Let us just stick to the price. If it is marketised to a greater degree, then people will pay and your argument is that they will use it more efficiently or they will pay for bits of it and use it more efficiently. The particular case that interests us is the consequence of analogue switch-off. Will that analogue spectrum find purchasers or is that an open question? If it does, what might it be sold for and to whom might it be sold?

Professor Cave: Can I begin with a modest preamble about the difficulty of answering that particular question? It arises for the following reason – that we have very few actual observations of spectrum trades. We have some slightly aberrant ones which date back to the year 2000 when the 3G licences were sold and we have some rather interesting leasing contracts relating to free-view channels, which give us some idea of the current value in 2006 of access, but the position in terms of scarcity of spectrum across the relevant bit of spectrum we are talking about is likely to change very substantially over the period up to 2012 and thereafter when the analogue switch-off spectrum will be available for other uses for two reasons. Firstly, Ofcom has published plans for very substantial spectrum awards, which it proposes to carry out over the next three years. These include, for example, a very large amount of spectrum in what is known as the 3G expansion band, which can be used for a range of mobile communication and broadcasting services. It also includes a plan to auction spectrum licences in what is called the L-band, which is a band which is particularly suitable for mobile broadcasting. There will be a lot of additional spectrum coming on to the market over the next, say, five years. As far as the demand is concerned, there are various views that you can take. In the course of the report which you referred to earlier, my Lord Chairman, we commissioned some work forecasting the balance between supply and demand of spectrum. It became apparent that there were some states of the world in which very extensive use was made of wireless technologies, for example, for broadband services using technologies such as wi-max and then 4G mobile communications and its successors and also for broadcasting. There were states in the world in which there will be very substantial growth in demand for spectrum and that would obviously have the consequence that any spectrum released would increase in value. I guess the conclusion of this is that any estimate that somebody gives you of the value of spectrum over a period of 20 years after 2012 is going to be subject to a very broad range of doubt. Having said that, I think there is a way in which you can try to unpack

the problem. Might I suggest how that might be done? You can think of the value of the spectrum licence as consisting of two components. One is the intrinsic value of the spectrum based upon its capacity to provide services. As I have said, some spectrum is better than others spectrum, just as some land is more fertile than other land. Just simply by making calculations about the extra productivity of particular bits of spectrum, you can produce some kind of estimate of how much spectrum at that level of scarcity would be worth. That is one element of it; it is a kind of scarcity rent. The other element of it is the degree to which ownership of a spectrum licence gives you market power in some downstream market and enables you to get some kind of monopoly profit in the downstream market. By a process of calculation, you can try to figure out what the scarcity value of spectrum is. Then of course you have to take a view about what degree of monopoly power it is going to confer upon the owner of the licence. That is obviously much more conjectural because it depends upon market conditions that prevail at the time. I am just coming to what I hope is the bottom line. If you address the first element of it, then I think for the value of spectrum you are likely to end up as an annual charge with something in the range per MHz of £0.5 million to £1.5 million. If you then gross that up at 112 MHz which are under consideration, that gives you an annual charge of something between £50 million and £150 million. If you capitalise that, which I propose you do very roughly by multiplying by 10, you get a value of something of the order of £0.5 billion to £1.5 billion. I do emphasise that this is based upon our current understanding of technological capabilities, and it is subject to a very wide margin of error. I am not suggesting that it will lie within that range. I would not be at all surprised if it were more or it were less. That provides, in my mind, some kind of general figure.

Q1754 Baroness O'Neill of Bengarve: So the auction that went on in 2000 is no model for the sell-off of analogue spectrum in this?

Professor Cave: No. I think that has no value for precedent at all.

Dr Cleavelly: Could I add that having been involved in the original working in setting up the auction of 3G and doing some of the technical economic analysis of 3G networks, (which then led to the idea that we could have five operators and therefore it would be possible to auction), the original estimates for the value were of the order of £3 billion to £10 billion, and the upper end of that was based on precisely what Martin said, which is the market power; that is, you can extract more value further down the chain and that is why that value was in there. The inflated values that were paid of the order of £23 billion were due to particular circumstances prevailing at the time. If we go back to the spectrum that we are talking about, this broadcast spectrum, Martin quite rightly points out that there is a huge range. He also said that it is quite possible that we would lie outside even the large range that he was talking about the £05 million to £1.5 billion. I would like just to give you a couple of other pointers as to why it is as uncertain, if not more uncertain, than Martin has just said. First of all, you actually need some equipment or some technical reasons for wishing to use that spectrum.

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We are sitting here in 2006; in 2012 we should have some extra available spectrum but if it is only this small group of islands here off the north-west corner of Europe that is doing this, then we are likely to find technical solutions that are relatively high cost and are not necessarily going to be commercially attractive. The second point is that whilst Martin was indicating, and he is right to do so, that generally lower frequencies are of more value than high frequencies, in fact that is not necessarily quite the case because if I have a relatively low frequency, it tends to travel further. Therefore, if you recall, I was talking about the idea of making small cells to make efficient use of the spectrum; the idea that you can do that with lower frequencies starts to become technically more difficult. Then there is the final point that there is a huge momentum building up, as Martin said, for example in the range of the 3G expansion bands, which are in the range of 2.5 GHz plus. These seem to be very high frequency and technically quite difficult, but, because there is so much R&D going into using

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these things and so much investment in technology going on, those areas start to become rather more valuable. The whole thing could be described as a mess or as us being a long way away from being able to put any reasonable estimates on what this spectrum would actually yield. We will be in for a surprise.

Baroness O'Neill of Bengarve: I think that is a very full answer because it explains why there is uncertainty about the answers in this area, which has been one of our problems.

Q1755 Chairman: We could go round this for a long time and not actually come, in the end, to any better position than both of you have just explained. There is uncertainty but I think we take away that £0.5 billion to £1.5 billion. Would you accept that, Dr Cleevley? There is a long pause here.

Dr Cleevley: I have a great deal of scepticism about the long run, high value of spectrum. That is because I think there are a lot of technical and technological developments coming along which will enable us to do a great deal with very little spectrum at very low cost. Because of that, then spectrum as a substitute will command a relatively low price in the long run, hence my long pause.

Q1756 Baroness Howe of Idlicote: I have certainly picked up the message that the value of spectrum and so on is changing literally moment to moment. I am just thinking about the public service broadcasting and particularly about the BBC, and I think somebody put a figure on the value of their spectrum as £26-£30 million a year, something around that. Have you any views about how well the BBC and other public service broadcasters use spectrum they currently have? Let us give one example at the present. Are their transmission networks geared to best use and so on?

Professor Cave: I am afraid I cannot really speak with great authority on the engineering aspects of this. I believe it is generally agreed that, given the constraints of providing near

universal coverage in an environment in which there are a lot of obstacles to it in the form of hills and valleys and so forth, we do have a system in which the analogue spectrum is used efficiently and subsequently the same basic structure of 1180 transmission sites will be used for digital, so I am sure that, subject to that constraint, there will be reasonably efficient technical use of spectrum.

Q1757 Baroness Howe of Idlicote: Just comparing the BBC and Channel 4 and the other two which have some degree of public service responsibilities, would you say the second group, ITV and Channel 5, are more efficient in the use because they have paid something for it?

Professor Cave: I do not think I would want to make that claim in relation to the operation of the existing transmission system. Clearly, of course, the actual transmission activity is done not by the broadcasters but by Aqiva or the National Grid Company, which actually does the heavy lifting as far as the engineering aspects of it are concerned.

Dr Clevely: Just to intervene on that, I would expect whichever broadcaster to try to minimise their cost anyway, so there are costs associated with transmission sites and things that Martin was talking about, the 1100 sites and so on, which would reflect in some relatively reasonable use of spectrum. The point is that those other broadcasters cannot trade that spectrum. They cannot say, "I am going to give up a few MHz and get some rent from doing so". They do not have the incentive to be efficient in their use of spectrum. The question cannot be answered. You say they were paid money for it, but it is not linked directly to a decision about the use or non-use of spectrum, so you would not expect them to behave any differently.

Q1758 Bishop of Manchester: I visited the Australian Broadcasting GDS in Melbourne a few months ago and for a short time dipped into a conversation not unlike the one we have

been having this morning, but then I was moved on before I discovered what they were really up to. I gathered that in Australia, and I think in New Zealand, they have been moving towards the price of allocation of spectrum. I wondered if you could clarify the position for us on that, if you do know it, and whether or not the kind of experiences that they have had on this issue are relevant to what we are talking about now.

Professor Cave: Australia and New Zealand have led the way in introducing market-based methods of spectrum management. However, the broadcasting systems in both countries are controlled by an additional overlay of specifically broadcasting regulation, which has imposed very considerable restrictions upon who can own what broadcasters and the purposes to which they can be put. I think that in practice they have a good framework for spectrum but their broadcasting regulation is as idiosyncratic and restrictive as it is in many other countries.

Q1759 Bishop of Manchester: So it is not very helpful?

Professor Cave: I do not think in relation to broadcasting you will find that particularly helpful.

Dr Cleavelly: There is just one small point. Particularly if you take New Zealand, it does not have as many countries surrounding it as, for example, Germany might or the United Kingdom, and so they can afford to experiment a little bit. They have conducted quite a few experiments in various forms of communications regulation. The only problem that both the Australian and the New Zealand markets have in engaging in this kind of thing is in setting the price because the markets are relatively small. Whilst you do not have the restrictions that we have here, it is then very difficult to set a price, quite apart from the very specific regulations that apply in the case of broadcasting.

Q1760 Lord Kalms: Would you agree that high definition TV would be one of the obvious manifestations of the benefit of spectrum? Could you amplify a little about the demand for spectrum from the wide number of sources that will want to use this particular facility?

Professor Cave: HDTV is a very interesting challenge. If very roughly you suppose that moving from analogue to digital reduces the demand for spectrum by about five, going back to HDTV increases it by five, so you end up with similar limitations on the amount of spectrum that you will be able to have. I believe, for example, that if you took the whole of the UHF band that is currently used for analogue and you put digital high definition signals into it you would end up with something like eight channels. That means that a single HDTV channel has an enormous opportunity cost in terms of normal definition channels and all the other things which spectrum could be used for such as mobile broadcasting, and mobile telecommunications. Heaven knows what will be thought up by 2012 when this spectrum comes on the market. My inclination would be to take HDTV as an indication that it is highly desirable to have some kind of spectrum pricing regime which means that, when decisions are made by a public service broadcaster about whether to exhibit HDTV programmes on a terrestrial transmission mechanism or alternatively to put them on a satellite or alternatively to put them on a cable system or on ADSL, you will have some kind of price signal which will encourage it to make sensible decisions. I regard this HDTV decision as one of the key margins in the future where having some kind of spectrum pricing will have a considerably beneficial effect upon rational decision taking within the industry.

Dr Cleavelly: I would absolutely agree. There is one point that we have not mentioned, although it was hinted at by Lord Peston, which was about the geographical split. It is worth thinking about the fact that there are some areas in the country - mid-Wales, for example - where there are relatively few people and you can have quite a free rein with quite a lot of spectrum; whereas in a dense urban area like London it is a rather different matter. Going

back to Martin's point about why you might need many different ways of getting this stuff, in an urban area like London the spectrum may be a very high price and therefore it would be a strong incentive to go for cable, for say HDTV. The same thing would not apply in mid-Wales or Scotland. One of the advantages of this kind of mechanism would be, I would hope, that we get better coverage for more people than you would by any other mechanism. I just wanted to make that slightly non-technical point.

Chairman: It has been a fascinating session. Thank you very much for coming. We are very grateful. Perhaps if, as may be likely, we have some further questions we might write to you and you can come back to us on them. We are enormously grateful for the trouble that you have taken.

Memorandum submitted by Lord Puttnam

Examination of Witness

Witness: **Lord Puttnam**, a Member of the House, examined.

Q1761 Chairman: Welcome, Lord Puttnam. You know only too well about the progress of this Committee. Since we last spoke to you, you have become deputy chairman of Channel 4.

Lord Puttnam: I will be at the end of February.

Q1762 Chairman: Congratulations on that. Can I refer to your speech to RTS North East and Borders which you sent to us, given at the Throwing Stones Restaurant at the National Glass Centre? I assume such does exist?

Lord Puttnam: And stones were thrown.

Chairman: You talked about the potential for really local television. One of the reasons you said that there was potential ~~was the question of costs. You can go into Dixons and for as~~ little as only £2,000 buy a digital camera.

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Lord Kalms: That was before the sale. I think you mean £200.

Q1763 Chairman: I knew it was a mistake to quote Dixons. [But you made the point that](#) ~~such cameras have better resolution than anything the BBC owned five years ago.~~

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Lord Puttnam: That is correct.

Q1764 Chairman: The barrier to entry that there once was in terms of technical equipment and the cost of that has simply vanished.

Lord Puttnam: I was using it as an illustration of the pace of change and the collapse of the barrier to entry.

Q1765 Chairman: Tell us about your concept. Cost is on one side but you take the view that television can now be very local indeed and there could be - I remember you made an analogy between Chelmsford and Northampton - a television station in Chelmsford and a television station in Northampton. Would that be fair?

Lord Puttnam: Yes. The example I was using was from my own background of 20 years as a non-executive director of Anglia Television. I think I know a reasonable amount about what we term "regional television". Regional television as we know it existed because there were a number of places in the country where you could put up a transmitter mast, get a signal, put a circle round that and call it a region. These regions were always totally illusory.

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I do not think anyone would pretend that even today, after 30 years of Granada, Liverpool and Manchester are entirely harmonised and see themselves as a region. I would defer to the Bishop but I do not think that is the case. In Anglia, we never reconciled Norfolk and Suffolk. The situation in a sense became worse, not better. At the time of the 1990 charter review and renewal of the licences, we had a long discussion about the possibility of a triple

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opt-out. That was the idea of having a news gathering service in Cambridge. Local news would be offered from Ipswich, Norwich and Cambridge. There was an enormous debate about this. The argument from many of the executives was that it was a waste of time

because the maximum Cambridge reach was only 300,000 people. I have spent a lot of my time working in the United States. There are people who probably with Mafia backing would kill for an audience of 300,000. 300,000 is regarded as a very big and profitable audience in

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the United States. I think we lapsed into an acceptance of the fact that we had a market which was fragmented into these so-called regions, which started with no geographical rationale but merely a technological rationale, and we have not got around to challenge that thinking. In

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the eight years I have been in your Lordships' House, I have gone around the country a very great deal, mostly in connection with my work for the Department of Education. What you

quickly come to terms with is the desperate need of communities to talk to each other and identify themselves as a community. I think it is a need that has grown in those eight years, not diminished. Here we have the technology to at last to be able to do it. It has been done very effectively for many years by local newspapers but local newspapers have their own limitations. Here is the chance to move into another area. One of my concerns is that the only movers at present are the BBC. All my concerns with the BBC are to do with what I would term as the over-professionalisation of the local. My concept is some what different. My concept is that if you see someone reading the news who Monday, Wednesday and Friday is on the check-out at Tesco your reaction to her is, "She is doing remarkably well." It is not, "Is she as good as Anna Ford?" It is possible that most local, technical colleges could get eight small cameras, send students out on a Saturday to cover three weddings each in the region, come back on Sunday, edit them into a programme and on the afternoons of the following week you have communities looking at themselves, seeing their own weddings, possibly not as beautifully shot as the BBC might do it, but something of real community value. I have brought along a video and it illustrates the fact that everything changes and nothing changes. I do not know if you are familiar with this wonderful series of films, *The Lost World of Mitchell and Kenyon*, put out by the BFI. This was a stash of films found in Blackburn shot very locally, in the early years of the twentieth century by local cameramen who went to workplaces, the football ground and various other places and filmed people coming out of work or the local football ground and, the following week, screened them at the equivalent of Blackburn Odeon. People turned up in their droves. Why? Because they were seeing themselves, and their own communities reflected within their own context. I do not think that instinct has ever in any way been removed. We have not had an audiovisual medium with which to allow people to reflect on their own interests: on people they know; the girl they were at school with. That is a completely legitimate form of television but we have

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allowed ourselves to lapse into the notion that television is something far more national and rarefied. My key argument during that speech was our need to understand that the local has not been served at all by television and yet the technology now exists to do it.

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Q1766 Chairman: You referred to the United States. Does that mean that in the United States there are such local television services?

Lord Puttnam: Very much so. The example I have used has been going for 50 years. It is run by Wisconsin State University. It is a marvellous example of what is possible. International news is taken down from the BBC. National news is obtained from PBS. But most of it is local, local football matches, local news, and local events. About two-thirds of the output on an average evening is local but it does not ignore the national and the international.

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Q1767 Chairman: Has a market survey been done in this country to see if there is potential?

Lord Puttnam: There have been some attempts using analogue spectrum to do it, some more successful than others. What I believe is that once you go out to communities, once you are prepared to invest in and take a chance on what local people do, you have to accept a fair amount of crash and burn. If you go down this route there will be failures, but there will also be successes. My belief is if you stay with it, if you allow the successes to be well publicised, you will begin to emerge over 15 years, I would say, with a pattern of very successful, maybe formulaic but very successful, local stations which serve a defined public need and which tie very neatly into all the other developments taking place in technology. The Wisconsin station, for example, is very closely tied to its web based service. Everything is on it. Much of it is also webcast. You can constantly update yourself on what is happening. These are

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very complementary media and the web gives a lot of advantages to the [potential at local broadcasting](#) that have not existed in the past.

Q1768 Chairman: What kind of operators do you envisage running these services?

Lord Puttnam: I would like to see a number of different versions, maybe local councils in cooperation with local NGOs. It would be very nice to think - I do not think it will happen - that the BBC could be a key partner with local organisations. I bow to nobody in my admiration for the corporation. Unfortunately, the BBC traditionally is a horrible partner. It does not "do partner". That would be desirable but [in the end](#) unlikely. I think it would be community organisations of different types, sometimes maybe involving local businesses and sometimes not. It would be very interesting to see what type of patterns of ownership would emerge.

Q1769 Lord Maxton: You mentioned the web and the internet. If the internet develops, broadband becomes commonplace and people watch television on their television but beamed to it by their computer that surely is the best way of providing this local service rather than having it as part of the BBC's broadcasting. I am not saying the BBC website cannot be used. It is already being used for exactly that sort of purpose. I do not see why you think it has to be television run rather than just using the internet as it develops for that purpose.

Lord Puttnam: Simply time. I was very interested in what Dr Cleavelly was saying. If you are prepared to wait five, six, seven or eight years, without doubt, you could get [this type of](#) broadband or cable direct to your PC. [But it](#) would be a pity to wait that long because the period between now and five years' time could be well spent discovering what does and does not work locally, what resources can be brought to bear, the degree to which, for example, local council meetings could be shown [even](#) planning decisions could be [broadcast](#). There is a whole plethora of areas that I would like to see experimented with. It would be a shame if

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the delay was a technological one. I have no doubt whatsoever that in six or seven years' time that will be the chosen delivery route.

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Q1770 Lord Peston: The more we ask questions about spectrum and charging for it the less I seem to understand. We have been approaching spectrum as if it were a scarce resource and therefore the economists say that scarce means charge. To take an obvious example for your local stuff, if it were to go out on spectrum as opposed to broadband they would simply be priced out of this market. If they had to meet the market price of what you call Tesco TV and so on, it would mean that none of these people could operate at all.

Lord Puttnam: One of the reasons I am pretty ambivalent about spectrum charging - I admire Martin Cave's report very much indeed - is that he has a series of targets, some of which are probably utterly legitimate. The Ministry of Defence would be one. The problem is the law of unintended consequences. If you took a rather broad brush on spectrum charging and applied it, for example, to the BBC you have an already relatively cynical public knowing full

well that this is what's known in the film industry as double dipping. The public are having their pockets picked for a licence fee and that licence fee is being picked again so that money can go back to the Treasury. If the figure is indeed, let us say, 30 million, surely that 30 million could be far better spent on the sorts of services I have just described. It is peanuts

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when it gets to the Treasury. It creates cynicism in the electorate and potentially damages the BBC. In a sense, I suppose I now have to declare an interest. Channel 4 was a brilliant concept of a visionary Home Secretary, Willie Whitelaw. It is a marginal organisation doing quite well at the moment. Three or four years from now it might be in some difficulty. The cost of spectrum to Channel 4 might be the very thing that tips it over into serious problems.

Do you as a Committee really want to be looking at a situation in which you are being asked to recommend whether to release Channel 4 from some of its BSB obligations because it has been so hard pressed as a result of spectrum charging, using all the same arguments that ITV

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listed, or would you rather forego spectrum charging and know that you have a reasonably healthy Channel 4 moving forward. I certainly would be more than unhappy if a series of events was set in train by my government which resulted in the diminution let alone the elimination of Channel 4, which has proved such a spectacular success for the Conservative Party. That would be a very poor bargain and it would be a classic form of unintended consequence.

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Q1771 Lord Peston: I was following your lead on the local, which I found very impressive. I am surprised you call them unintended consequences since they are so obvious, it seems to me, that you have to regard them as intended consequences.

Lord Puttnam: I do not think for one moment Professor Cave would be a happy man if he knew that he had been directly responsible for the collapse of Channel 4.

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Q1772 Lord Peston: If we take Channel 4, if we start from a logical position and you want Channel 4 in its public service context, it follows that you have to facilitate this happening. You can say you facilitate it happening because you are going to charge them but then you could give them the money back that you are charging them, which seems rather ridiculous. You are much better off just giving them the ability to do it in the first place. All you have done is create bureaucracy. I hope Channel 4 is not in danger but I am much more intrigued by your suggestions about all these local things which do require an approach which is a citizenship approach of "Let us facilitate this."

Lord Puttnam: Of course you are right. It comes right back to the Chairman's question which is what sort of groupings might be put together that might facilitate community television. I would like to see this being community driven. I think that is where we will learn something and that is where the value will lie. If all of a sudden there were another unintended victim of a spectrum tax, where there was a requirement to put down £250,000 in

a small area in order to pay the spectrum tax, I would argue that you begin to drift into what I am terming Tesco television because immediately the powerful player is the person, maybe a large retail outlet, who can come along and say, "I will pay the 250 but this is what I want. I want these advertising breaks and you can fit the programming in between." You will begin to have a different economic mix one that becomes principally driven by a fiscal imperative. From my perspective, that entirely misses the point.

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Q1773 Chairman: You argue you do not want Tesco television. You do not want council television either, do you?

Lord Puttnam: No.

Q1774 Chairman: I was a bit worried by one of those replies because if you are going to have genuine community television it is going to need to be independent and one of the things it is going to need to be independent of is councils.

Lord Puttnam: Absolutely. This is why I suppose I am arguing against any fiscal imperative placed up front, which plays into the hands of any one of the vested interests, be it the local newspaper, the council or the dominant retail outlets. When I use the word "community" I mean community, a means by which communities can express who and what they are as freely and as honestly as possible, including holding the council to account.

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Q1775 Lord Maxton: Can I be slightly a devil's advocate here? That is fine if you talk about Tesco but what about John Smith, the local grocer, and George Brown at the local garage? Surely, if you are having this local television, one of the things people are entitled to get from it is what local commercial services are available to them.

Lord Puttnam: I could not agree more. I am talking about the local dominant advertiser. It would be almost absurd to not allow local retail advertising. I was brought up in an era in

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which the cinema had those terrible slides that used to be pushed across the screen during the interval which promoted small local retailers. I am not suggesting we go back to that but I do think there should be a very good opportunity to promote local retail outlets. There is a lot of good stuff in the Building Public Value document but my argument against if is it assumes a level of professional output which I think will defeat the purpose behind real local access, but I would love to be proved wrong.

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Q1776 Chairman: You are obviously fairly sceptical about the BBC providing these services.

Lord Puttnam: I am sceptical for two reasons. I am sceptical because I do not think they know how to do anything inexpensively and somewhat amateurishly. I use the word "amateurishly" as a positive, not a negative. I do not think they are very good at involving local communities on anything other than their (the BBC's) terms and working to their rules. They make poor partners. If I had a wish list of the things the BBC could better learn how to do, it would be partnerships. Lastly and most importantly, if they are remarkably successful in moving into this space it is likely to deter rather than help other people finding ways of putting this kind of community project together.

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Q1777 Baroness Bonham-Carter of Yarnbury: Picking up on your scepticism about the BBC being involved in this, going back ----

Lord Puttnam: Not involved; dominating. I have no problem with the BBC being involved at all. I would want the BBC involved. I have a certain scepticism about the BBC dominating this space.

Q1778 Baroness Bonham-Carter of Yarnbury: You can imagine them being part of it?

Lord Puttnam: Very much so.

Q1779 Baroness Bonham-Carter of Yarnbury: One of your first answers was about how technology means that this can be so much cheaper than it has been up until now. The BBC is estimating the moves that they propose for the next Charter period to make their services more local will cost £55 million per annum. In the light of your comments about what you can buy at Dixons, does this seem a realistic sum of money?

Lord Puttnam: I have tried to push the BBC on this and maybe you can be more successful than I have been. My concern is that, assuming some of these plans for buses and local community involvement are remarkably successful, how scaleable are they? What would happen if they are genuinely successful and we want to move from 15 or 115 buses to 1,500 buses or we want to move rather more rapidly in pursuing the local reach of the BBC? I cannot get a sense that the BBC's figures account for that level of scaleability. It is quite difficult to unravel what that will pay for let alone what happens if some or all of it takes off like a rocket.

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Q1780 Baroness Bonham-Carter of Yarnbury: You do not think they are over-estimating the cost?

Lord Puttnam: No. The BBC are pretty good at costing what they do, they do overspend but they normally have some contingency for that.

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Q1781 Lord Maxton: Do you think the BBC should be involved in the digital switchover?

Lord Puttnam: I do. It would be illogical for the BBC not to work with government in enhancing, encouraging and driving forward digital switchover. They know more about it. They are well resourced. They have the relationship with government and in a sense they have the public service remit to ensure that digital is made available to the poorest, least advantaged and geographically most challenged.

Q1782 Lord Maxton: I can see that but why should the licence fee payer finance it? Why should not the rest of us pay for it?

Lord Puttnam: That is a perfectly good question. In a sense, it is the reverse question of why the BBC should pay a spectrum charge. You are right. It does encourage cynicism on the part of the licence fee payer who feels, “Is this the very first phase of top slicing? Is [this](#) first bit of top slicing of the licence fee to pay for other things?” If it is, does it set the wrong precedent? It is a very correct question. On balance, if you are asking me should the BBC be engaged with the government in driving this forward, yes. Should it be paid for by the licence fee? I am not sure about that.

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Q1783 Lord Maxton: Personally, I have some reservations about the technology to be used. It may be that by 2012 the BBC will be a producer of programmes rather than a broadcaster and that we should be looking at other technologies to ensure that everybody has digital services rather than just digital television. Would you agree?

Lord Puttnam: We may find it quite difficult to define what a broadcaster is by 2012. If by “broadcaster” we still include the key archivist, the organisation that makes material available, sometimes quite unusual material, if that still is a broadcaster, the BBC will retain that role. There is something very interesting happening in video and in publishing. It is not a diversion; it is fascinating. The average large book store carries 130,000 titles and sells about ten per cent of them on a regular basis; yet more than half of Amazon.com’s book sales come from outside of its top 130,000 titles. What this indicates is that there is a market out there for material that is not available on the shelves but which people would like access to. I hope I am not complicating your question, [I believe the bookshop analogy will hold up](#). Who will be the organisation - I think it will be a publisher/broadcaster - who will make available all of its products on demand? We can argue what demand might mean. I would probably still end up calling them a broadcaster. The BBC’s resources increasingly will be available to

all of us all of the time. I have an I-Pod Nano slightly smaller than this downstairs. I checked before coming up. I have 1,112 tracks on it. That is almost inconceivable when I look back 20 years to my first Walkman. I think television will move in exactly the same direction.

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That type of access will be available to us well within 20 years. I think 2012 is about right.

But that would still be a broadcaster. I will still be relying on the BBC to call up my material.

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Q1784 Lord Maxton: I know it is technical but once you move on to mobile telephones, using the internet and broadband, you are talking about narrowcasting, not broadcasting, technically. Broadcasting implies something that is put out that everybody can watch if they turn on their television at that particular point in time. Narrowcasting implies that you watch it when you want to watch it and where you want to watch it. That is what you are describing in the second part of that answer.

Lord Puttnam: Yes. That is where we will end up. There will be elements of broadcasting but essentially the market for narrowcasting will grow exponentially, whereas the market for broadcasting may well drop.

Q1785 Baroness Bonham-Carter of Yarnbury: Going back to the use of the licence fee for analogue switch-off, we have been hearing from quite a lot of people that the government is likely to get a considerable amount of money from the sale of spectrum. Should it not be using that money to pay for the analogue switch-off, rather than expecting the licence fee payer to?

Lord Puttnam: Yes. I think that is a more appropriate source of funding.

Q1786 Chairman: Your position is that the BBC should be a pivotal force, if you like, as far as switchover is concerned but the finance should come externally, not through the licence fee?

Lord Puttnam: Yes. I am concerned about using the BBC internal resources to fund things which are essentially not [related specifically to the output of](#) the BBC because I think we are [there](#) setting a hare running and sooner or later someone is going to suggest more that is similar and we will be [seriously](#) into the top slicing argument, which is a completely different debate.

Q1787 Bishop of Manchester: One of the things we have talked about quite a lot in this Committee is the proposal that has been made about Manchester. There are three areas I would be very grateful to you for sharing your views on. The first is that the costs of the move have seemed quite enormous. As time has progressed, the projected costs seem to have come down a little. Nevertheless, that is an area of concern. The second point you made earlier about the local community is how far it is realistic for the BBC to be saying that the move to a shared hub in Manchester would be of enormous benefit to the local community. Thirdly, in the light of the points you have made about the BBC's very poor reputation in sharing - that is a point that has been made by other people as well - what chances do you think the proposal has for success anyway as a concept of sharing between the BBC, ITV and the independents?

Lord Puttnam: My experience of moving centres of activity is that it is, to all intents and purposes, illusory unless you also move the decision making process and the financial clout that goes with it. Why do I say that? When I went into the film industry in the late 1960s, people talked about Hollywood. No decision was made in Hollywood. All the decisions in the film industry were made in New York. It was not until the mid-1970s when, for their own reasons, partly property based, the studios moved to the west coast and the decision making processes began to take place [in Hollywood](#). The decision to move sport to Manchester is a good and very positive one. It is the sort of shift I would like to see take place [rather more generally](#) in this country. I will not be totally convinced until I know that the head of sport is

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living there, that the decisions are being made round a table in Manchester and that the resources that fund those decisions are also available in a bank in Manchester. I do not like token regionalism. I think it is bad for the regions and for everyone involved. I am very much in favour of moving the non-metropolitan aspect, particularly of the BBC, out. I work a lot in the north east and I would like to see much more take place in the north east, but the north east will only have the confidence to perform as I believe it could once the decisions, the resources, and the mistakes can all be made there. That is another very important point. Regions must step up, have the ability to make decisions, face their mistakes and solve them. I am not sure nationally we have come to that point.

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Q1788 Bishop of Manchester: It has certainly been the experience in the religion and ethics department which moved to Manchester much earlier that they felt very distanced from where decisions are made. It would be very unhelpful if that kind of experience were to be repeated in the sports area. I think there is a view among some people that when the move is made to the hub, if it does happen, departments like religion and ethics will disappear or be changed. Could you share with us your views about the kind of things that you see happening in this proposed hub? How would it work between the BBC, ITV and the independents?

Lord Puttnam: I think it could work in niche areas but not without enormous difficulty. Can I go back to the period when I was at Anglia? I was chairman of a wonderful subsidiary called *Survival*. We made wildlife films. It was a very successful small company. Because so much of *Survival* related to footage we had commissioned, we used to own our archives which was quite unusual. I spent a lot of time dealing with BBC Bristol to try to create a national wildlife archive. It seemed to me to be completely sensible - there were only three players, the BBC, a small organisation owned by HTV in those days, and ourselves - to pull that together as a comprehensive archive seemed to make the greatest sense – but it proved absolutely impossible. Everyone had their own reasons why this had to be here and you could

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not possibly move that to there. You were led to understand that if we had got rid of this or that warehouse in Swindon the entire nation would collapse. I became pretty cynical about the excuses for putting things together. It would be a first in broadcasting to get independents and the major players to work together harmoniously to an improved end product. It might save costs along the way but I do not believe the end product would be enhanced or improved.

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Q1789 Chairman: That depends on the BBC.

Lord Puttnam: Entirely.

Q1790 Chairman: Is it a two way thing? Is it just that the BBC are bad partners?

Lord Puttnam: I am afraid so. I can only repeat that, in my experience, they do not know how to do it. It is not part of their culture. Lord Kalms will have his own experiences. There are businessmen who cannot be partners. It is not that they do not want to be; they just do not know how to be a partner. They know how to use someone else's money in a joint venture but they do not know how to be a partner.

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Q1791 Bishop of Manchester: If this is going to cost as much as people are saying and you are telling us that you do not think it is going to work, ought not the plug to be pulled on the idea?

Lord Puttnam: I would be sorry if that happened because there are people who are very keen to move sport to Manchester. I think there is enough impetus - there certainly was under Greg Dyke - to do it properly, to re-locate it there, put the management and resources there and make the decisions there. Whether there has been some backsliding since Greg went I do not know but it would be a pity if the idea was allowed to atrophy.

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Q1792 Bishop of Manchester: It would be a good idea?

Lord Puttnam: Yes.

Q1793 Chairman: There are two issues, are there not? There is the issue of putting sport and other things there and there is the issue of the shared production at the hub. The two perhaps are not the same.

Lord Puttnam: It will only work if the BBC are prepared to relinquish a fair amount of control and I suppose what I am saying is I think they are going to find that agony.

Q1794 Bishop of Manchester: Interestingly, Charles Allen is very enthusiastic about the idea.

Lord Puttnam: It is a win win for Charles Allen. It is hard to convince the BBC it is a win win.

Q1795 Chairman: Why is it a win win for Charles Allen?

Lord Puttnam: Because he lowers his costs. I do not think he feels all that proprietorial about the decision making issues and again it is a different culture. Charles Allen is a deal maker. He knows how to make a deal and he knows how to walk away from the details having made it.

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Q1796 Baroness O'Neill of Bengarve: As you know, in our first report we suggested that Ofcom should have comparable powers for content regulation to the BBC and other PS broadcasters. Would you agree with that recommendation? Do you think that would add a sensible form of regulation to the BBC or do you think it would be a little different?

Lord Puttnam: Ironically, in view of what I have been saying, I am not a supporter of that. There are two reasons. The core suggestions the BBC are making along the lines of the Michael Grade Trust concept are worth a go. I am not sure it will work but I certainly think it is worth a run. Conversely, Ofcom is a very young organisation with an enormously broad remit. There is a lot of work to do and I frankly think it could do without the additional

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responsibility of the BBC for the time being. I am on record as saying that I think there is a strong argument for a mid-term review. I would not blame the BBC if eyes went to heaven at the idea of a mid-term review. I would rather see something more. I would like to see the trust itself commit to commissioning some form of peer review of those areas in which the public value test is involved. I have a shortlist: certainly its commitment to training and training for the entire industry. I am not comfortable with the idea that the BBC decides itself how well it is fulfilling its commitment to the rest of the industry. I would like to see that peer reviewed and I would like to see that peer review published. In the area of curricular support, there is no reason at all why the Trust should not have a rolling contract with the Institution of Education to appraise the BBC's performance in this area of educational output, comment on it and publish their appraisal. Diversity would be another one. Parliamentary coverage might be another. These are key areas of public value that the BBC is responsible for and where it cannot honestly, without blushing, make the argument that it could be the judge and jury of how successfully these are being carried out.

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Q1797 Baroness O'Neill of Bengarve: This is to take the notion of content regulation very much further than the Ofcom definition of content regulation which was extremely minimal and perhaps even so a burden too far extended to the BBC. Your notion is a diversity of forms of peer review, not just the National Audit Office and Ofcom?

Lord Puttnam: Yes. I am an enormous fan of expert peer review. Training is a very good example because there are people who really do understand where this industry is going, what the needs of 2012 are likely to be and whether there is going to be a sufficiency of this or that type of training. I am not prepared to trust the Corporation with this enormous responsibility, with no one commenting annually as to whether it is meeting its targets because they are in themselves shifting targets. We are talking about 2012 and maybe 2020 and all of a sudden we could find ourselves with a really serious skills deficit. These things have to be

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monitored, analysed and commented on and that cannot be done by the Trust. It can be commissioned and published by the Trust but it has to be carried out by someone who really knows their business.

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Q1798 Baroness Howe of Idlicote: Quite apart from suggesting that Ofcom should take over the review of content, one of the comments you made was that the whole of the Content Board might need a little reappraisal. I wonder if you have any views on how you see the workings of the Content Board?

Lord Puttnam: We fought jolly hard to get it and to give it some teeth. With the change over in Chair, this would probably be a good moment to appraise the performance and work out whether it is doing the job. It is a little large. I am not a great fan of rather crude, regional representation. For me it is rather like a football team. Yes, it maybe a good idea to have a Chinese fallback but it is also a good idea if he is a good fallback. I would really like to think that everyone on the board is appraised for their skill set as well as their representational value. My concern is that on the one occasion when the Content Board in its area if responsibility advised the main board that it was making a mistake it was ignored. That was over the removal of the totality of the ITV PSB obligations. That is a pity. Whilst I gather it was done pleasantly at the time, it would be quite nice to see the two conflicting arguments put side by side, to be assessed possibly by yourselves. There has been an important development which is that the Content Board's recommendations appear in the main board minutes. That is a very important and could be a significant development. That is one to applaud but it would be a great pity if the Content Board somehow gets reduced to being a mere advisory attachment to the main board.

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Q1799 Baroness Howe of Idlicote: One of the hopes that we had when we were putting forward this idea of a strengthened Content Board was that somehow the Content Board

would be more accountable and more open to licence fee payers, which is the group who clearly feel very strongly about issues of content. Can you see any way in which that could be done?

Lord Puttnam: You and I have met the Consumer Panel and I think we were both rather impressed by the seriousness with which they are taking their job. The key here is the relationship between the Consumer Panel and the Content Board. It is a fairly clumsy structure. No one invented it; no one really wanted it; it was something of a lash up. There is no question about that. But so long as there is a decent relationship between the Consumer Panel and the Content Board, as long as the Content Board is taken seriously, as long as the views of the Content Board become public through the publication of the minutes, that is probably in the short term as good as we are going to get.

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Q1800 Baroness Howe of Idlicote: Would there be any case for holding some of the hearings in public?

Lord Puttnam: There would. It may be better that there should be a public annual review, an ability for stakeholders - an awful phrase - to be able to turn up and question the Content Board on the decisions that have been made and the pressures they find themselves working under. I have been chair of enough meetings to know that whilst it is a lovely idea, in practice it can be a nightmare.

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Q1801 Baroness Gibson of Market Rasen: I understand that you are in favour of an annual appraisal of the BBC or certain parts of it. Could you expand on your thoughts on that, particularly in relation to how it would work?

Lord Puttnam: For the first five years I would like to see a statement from the trust acknowledging the fact that they have a tremendous amount of evidence of performance in a number of specific areas, a lot of experience of performance in these areas, but that there are

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other areas, which we tend to refer to as public value areas in which they have a limited ability to oversee and appraise. This is where my concept of a peer review comes from. In those areas, they should go out and seek really good advice. Were it me, if I were Michael Grade, I would go along to the Institution of Education and say, “We would like a contract with you for the next three years on a rolling basis. You appraise our education output. Look at the intention that lies behind it. Look at the budgets – look at the outcomes and tell us if it is working. Are we really supporting schools as well as we could?” It would effectively become the interface between the measurable impact of the BBC’s output on education and the people who are making the programmes. Some very interesting things could well begin to emerge. Nothing like this really existed. The BBC will say quite seriously, “We talk to the education world all the time. We have a deep relationship with the education world.” Yes, and No. If the trust would show a willingness to acknowledge that it cannot be expert in every area and it is prepared to take expert advice and publish that advice and back it in the form of improved output, I would have thought the trust would have done itself an enormous favour.

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Q1802 Baroness Gibson of Market Rasen: You do not think annually is too short a period of time?

Lord Puttnam: Personally, I would prefer a rolling review, certainly in the case of education which is the area I am most familiar with. So many things just do not happen annually. What one might have is an annual report to the trust, which the trust would then publish.

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Q1803 Lord Peston: One is very sympathetic to the examples you give but would it not also be useful if there existed a committee like this Committee which every year would have the BBC before it to say, “We are very puzzled, for example, as to why you did not bid for

one of the six football packages” and things like that? Would that also be included in your need for the BBC to explain itself more generally?

Lord Puttnam: Absolutely. There is no serious argument for not having a permanent select committee looking at these issues. This is an important area of public life. This Committee is perfectly able to do it; it has the resources to do it and it is a very good way of going about it.

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You are seeing Michael Grade this week. If I were Michael Grade, I would welcome the opportunity to explain myself to people who have the time and the interest and who probably share my values. I have never really understood the reluctance on the part of people in public life to appear before select committees. It seems extraordinary to me. When I was chair of NESTA I used to look forward to select committee hearings because it gave a real opportunity to air your problems and grievances. If you have a reasonably sympathetic chairman and informed members, it is a marvellous way of getting out into the media some of the problems that are worrying you.

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Q1804 Lord Maxton: The BBC already produces an annual report. Annually, the chairman and the director general appear along with other members of staff before the House of Commons select committee and answer very difficult questions on that report. I do not think we want to run away with the idea that nothing happens at present.

Lord Puttnam: I am not. Qualitatively, what is likely to come from a standing committee in the House of Lords will be somewhat different from the House of Commons committee because your agendas are necessarily slightly different. You are more a fan of the previous chairman than I am but I felt that the House of Commons committee had at times unnecessarily hostile agenda and certainly it was felt to be a hostile agenda at the BBC.

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Q1805 Lord Maxton: Not by everybody.

Lord Puttnam: No, but among people at the BBC. That is not helpful. As chair of an organisation, again my experience was at NESTA. Yes, you are prepared to take hostile questions but you are also looking for support when the answers you offer are good and valid they deserve backing. That is the reason to be there, to seek support for the things that are most vexing.

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Chairman: Lord Maxton is a well known refugee from the Commons committee.

Q1806 Lord Kalms: I very much enjoyed reading the speech. It is a very good insight into the BBC and the way you described it rather amused me. I want to come back to the theme of your speech which is about local content. At some stage in our report will have to deal with this. It struck me that you were being somewhat over-ambitious. You said you felt you could fill most of the time in that local slot with local news. I would assume that you are going to run local news from six in the morning, say, until midnight. It seems to me that you were talking about a few news reports downloaded from other programmes, but would it not be more likely that you could achieve what you wanted if you did not aim so high? I rather suspect what you are asking is just going to be a no no, whereas we could insist, for instance, on the BBC giving you, say, three hours local. In other words, aim a bit lower and hopefully achieve something. If the BBC, on the basis of low cost, had to provide three hours locally for areas, would that not be a more likely target to achieve rather than insisting they give a whole dedicated programme? Surely all day locally would be a bit mind boggling? You can watch a local football match and the local council but you are talking about filling a lot of slots every day, seven days a week, 12 hours a day. That could be from famine to over-indulgent feast.

Lord Puttnam: There would be a lot of repeats. I do not mean that in a negative sense at all.

Take my example of a weddings programme and let us say it is one hour. There is no reason at all why it should not be three afternoons a week because people do dip in and out. Many

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women particularly work part time, so you schedule it to ensure that in any given week there is a very good chance that any woman working in that locality had an opportunity to view it. Yes, there would be quite a lot of repeats but my concern about it being a three hour opt out of the BBC is honestly to do with the fact that unless we try to build this bottom up, unless you give people a chance locally to express themselves in their own time and in their own way, we will always get back to this national, top down concept of what television is. “This is what we are going to do. This is what is good for you. These are the questions we will ask you and we will do it beautifully and professionally.” I am suggesting that there is a different form of television that you have made possible through technology. I do not know if it will work but I would love to see it happen in my lifetime and find out what communities are capable of. I live in west Cork, in Ireland, and we have an enormously thriving farmers’ market. Every one of those people has a story. We have for example a very successful cheese maker in west Cork. We come together on a Saturday and if I miss the farmers’ market I miss out on what is happening in my locality each week. That is where we find out about each other. All I am suggesting is I think there is a thirst for local knowledge and a thirst among people to have a sense of who their community is and what members of their community are doing, which inevitably national or even large regional broadcasters tend to trivialise.

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Q1807 Lord Kalms: If you have this idea that you want to incorporate local programmes, why do you not try and sow the seed and plant the seed into it? If we insisted or recommended that there were so many hours of local and that seed is planted, if it is a good idea it would develop and go from three hours to six. It would become totally local. I am trying to transplant the seed into the BBC’s mind following your suggestion, which is excellent and which I totally support. You must have a content of one, two, three or four hours a day or so many hours a week of pure local stuff. Plant the seed. Argue that planting

of the seed and you might get somewhere. Argue your case for total dedication and I can see a resistance from the BBC. “It is a good idea but come back later, son.”

Lord Puttnam: I have been to Hull where the BBC has a very good centre indeed because of the history of the way the telecom market developed in Hull. The BBC have used it as a test bed. A lot of what they do is very good but it is very clearly BBC driven, driven from the centre. I do not get a strong sense of the voice of the people of Hull dominating that the output. At the end of the day, I am a deal maker but I would love to see at least an attempt made to see what happens when you take a housing estate and get it to look at itself, look at its problems, identify who its heroes and villains are and see what happens. We have the technology, we have the resources, the wit and wisdom to do it. All we need is the will. In the end of course I will settle for whatever deal is possible.

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Q1808 Chairman: Going from the local to the rather bigger stage, the World Service to which you refer in one of your memoranda and of which you appear to be a great admirer, have you had any views on the idea of this Arab language service being introduced and whether the funding for that is going to be adequate?

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Lord Puttnam: I talked to Richard Sandbrook who is responsible for it and my sense is that, yes, the resources will be adequate and that there is quite a lot of regret within the BBC about the cuts that had to be made in order to do it. It was a decision made at the top. I am not so much worried about resources. I am worried about the precedent that it sets, that we begin to trim away the World Service in areas that are seen to be “non-essential” in order to focus on areas which are seen to be politically sensitive or even politically essential. I would have thought that if there was an overwhelming argument for an Arab service television station to be supported by the BBC then we are a big enough and ugly enough nation to be able to resource it without cuts but I do not know enough about the detail.

Q1809 Chairman: You would argue for additional resources?

Lord Puttnam: Yes. Just to show that even the oldest product can have new life, *The Wizard of Oz* was made the year before I was born and has been watched by people ever since. This D.V.D version went into the shops yesterday. It is possible to give new life to even the oldest concepts.

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Q1810 Chairman: You are the only person who, in our evidence so far, has brought along a sort of teaching aid. Thank you very much for coming. We have enjoyed your evidence, as always. Perhaps if we have any other points we can come back to you.

Lord Puttnam: Thank you for listening to me.